



STATE BOARD OF LAND COMMISSIONERS

Dirk Kempthorne, Governor and President of the Board
Pete T. Cenarrusa, Secretary of State
Alan G. Lance, Attorney General
J. D. Williams, State Controller
Marilyn Howard, Superintendent of Public Instruction

Stanley F. Hamilton, Secretary to the Board

FINAL MINUTES SPECIAL LAND BOARD MEETING February 16, 1999 1:30 p.m.

The special meeting of the Idaho State Board of Land Commissioners was held on February 16, 1999 in Boise, Idaho. The Honorable Dirk Kempthorne presided. The following members were present:

Honorable Secretary of State Pete T. Cenarrusa
Honorable Attorney General Alan G. Lance
Honorable Superintendent of Public Instruction Marilyn Howard

Secretary to the Board Stanley F. Hamilton

Honorable State Controller J.D. Williams was absent from the meeting due to illness.

Charles G. Saums, Investment Manager, Endowment Fund Investment Board and members of the Endowment Fund Investment Board were also present at the meeting.

Governor Kempthorne stated that the special meeting was held for the purpose of discussing the recommendations on endowment trust reform implementation. Based on the actions of HJR 6 and 8, where the people of Idaho have given the affirmative vote for the Board to proceed with the adoption of investment opportunities.

Governor Kempthorne stated that the discussion at the previous Land Board meeting was could we move the actual date of implementation forward in order to begin to see the benefits of this as soon as possible. We now have Senate Bill 1107 which has an effective date of February 15, 1999.

Governor Kempthorne thanked Douglas Dorn, Chairman, Governor's Committee for Endowment Investment Reform and Robert Maynard, Chief Investment Officer, PERSI and others who worked so diligently. This meeting is an opportunity to discuss "How do we now move toward implementation."

Attorney General Lance echoed the Governor's remarks as to the diligence and great work of the committee. He also recognized Senator Judi Danielson and Representative Bill Deal for the work they have done in their respective legislative branches.

Attorney General Lance said that given the opportunity to make substantially more money by modernizing our practice is an exciting undertaking for those who have served on the Land Board. This should provide the Land Board with a great deal more flexibility and as Governor Kempthorne stated – substantially more revenue for the children of the state of Idaho.

Secretary of State Cenarrusa again echoed the previous comments. He passed out copies of the new constitution for the group. HJR 6 and 8 are part of this new constitution.

Governor Kempthorne introduced Mr. Dorn and Mr. Maynard. Mr. Maynard provided the group with presentation on Endowment Trust Reform Implementation. He stated that many had seen the presentation before and this was intended to bring the group “up to speed” and present a picture of what lies ahead. The points that were covered in the presentation were:

1. Overview
2. Changes Made to System
3. Current Posture of Trust and Problems
4. Spending Policies with Examples
5. Other Implementation Tasks

Mr. Maynard provided the group with two documents (1) a background paper for recommendations on endowment trust reform implementation, and (2) recommendations on endowment trust reform implementation. He also provided the group with a hard copy of the slide presentation.

Mr. Maynard stated that two things were being asked of the group with regard to taking the next step forward into a more formal implementation. First of all, at the end of the presentation, the Board will be asked for conceptual approval for the general direction in proceeding. He brought out that it would not be each and every detail but a general understanding that this is the direction the Board wants to proceed. Secondly, he stated there should be an appointment of an implementation team of some nature. Now is the time to kick this off to a more formal body that is going to be responsible for the actual implementation.

Mr. Maynard began his presentation by stating that overall what the Endowment Fund Reform efforts did was basically talk about the change in the way the entire trust is to be viewed and run. A change in focus. A change from managing the individual parts of the trust to managing the endowment as a whole. Because it has been separated and because of other pressures, the way these trusts have been managed has been on a “bottom – up” perspective rather than a “top – down” perspective. What this change does is say “focus on the goals of the trust and policies to reach those goals before you start viewing the individual parts.”

A copy of Mr. Maynard's presentation slides are part of the permanent record.

Governor Kempthorne asked that the Endowment Fund Investment Board be introduced. Mr. Bernie R. Rakozy, Chairman of the Endowment Board introduced the members who were present. The members present were William D. Mitchell, Gavin M. Gee, Rep. William W. Deal, and Superintendent Marilyn Howard. Staff from the Endowment Fund present was Charles G. Saums, Manager, Jennifer B. Dobler, Connie M. Eshelman, Andrew M. Potter and Mary L. Livengood. Several members were unable to attend.

Douglas Dorn, Chairman, Governor's Committee for Endowment Investment Reform was introduced. Mr. Dorn stated, for the record, that while he was Chairman of this committee, Mr. Maynard did the lions share of the work. He stated that Mr. Maynard needed to be recognized as one who has been a driving force in this effort.

Mr. Dorn stated that for someone who has not been involved in this effort, Mr. Maynard's presentation is probably overwhelming. It is not nearly as complicated as it may appear on the surface. He stated that a key suggestion to the Land Board is that someone (or persons) needs to be in charge. He said that the committee worked very hard on this. At this point, an executive is needed to make sure that these things happen.

Mr. Dorn stated that both he and Mr. Maynard would be happy to contribute their time in a staff type of role when deemed appropriate.

Governor Kempthorne asked Mr. Maynard about the Trust Asset Allocation. He stated that approximately 64% were timber. He asked what else is out there. What does this mean in regard to timber? Mr. Maynard said we are stuck with timber and to recognize our dependence on timber and it is a matter of managing the other assets. Mr. Dorn said a principle to go forth with is – consider the effect of another type of asset. By reinvestment – inflation proofing – to the Endowment Fund that will grow over time and at a faster rate than timber will grow. That percentage will go down, but it will take a long time.

Governor Kempthorne asked how much this would change the dynamics of the Land Board and the Department of Lands. Mr. Maynard said part of the problem that the Board and Department have been facing is the inability to actually rationally put together blocks of land due to the requirement of exchanging. This allows a block of land to be sold for market value; go out and market in a 2-year period then buy. There is more flexibility in consolidating land.

Governor Kempthorne asked Director Hamilton if the Department is prepared to change that approach. Director Hamilton stated that the Department has gradually been changing in that direction. There are things to do. Some purchases have been done, but they are so cumbersome through the land exchange process. It takes a long time to do this and it is hard work. He said he felt the Land Bank would be used to select properties that the Department wishes to dispose of, have a sale, and then have the money to purchase a parcel or property that the Department was interested in.

Governor Kempthorne asked Director Hamilton if he felt two years was sufficient time to make a purchase. Director Hamilton said the Department would have to be very careful. The Department would select the lands to be disposed of, get them ready to go, select the lands to purchase or acquire – then have the sale and it could probably be done in two years. Timing would be important.

Director Hamilton said when legislature considered the time, the Department had asked for five (5) years and legislature provided two (2) years. He stated that he felt the two years would remain. He stated that he did not see the two (2) years as a major problem.

Superintendent Howard asked if timber revenues were going down. Director Hamilton stated that timber revenues would drop. The reason is that we have dropped from an annual harvest

of about 200 million board feet per year to 165 million board feet per year. He stated that it would probably stabilize there. Then probably in five or ten years, we would be climbing back to 175-180, somewhere in that area. Timber prices peaked about three or four years ago and we are still realizing the benefit of that. Director Hamilton said that Mr. Maynard thinks it is difficult to figure out what the earnings are going to be, the problem the Department faces is trying to figure out when a timber company is going to harvest.

Director Hamilton said a question that we have here is that we don't know what the federal government will do over the next ten years. We know what they've done over the past ten years and right now their harvest is very low.

Superintendent Howard said that we are protecting for inflation. Over time, we have seen our Endowment Fund improve because the timber sales have gone to it. She stated that she was very interested in making sure the Endowment Fund grows so that we can take advantage of improved returns. She said she wanted to make sure the commitment to the schools was retained.

Charles Saums, Manager, Endowment Fund Investment Board stated that their expenses were about half a million dollars to manage the money. There will be additional costs involved.

Attorney General Lance said he detected, during the course of the presentation, that Mr. Dorn and Mr. Maynard said something to the effect that they would not be the appropriate people to service on an implementation advisory committee. He asked if this was misinterpreted. Mr. Dorn said their prior involvement was done as ad-hoc, pro bono, however it could be done. That didn't require any authority or executive skills. It was just a matter of studying the situation and coming up with some recommendations. Should the Land Board adopt these general recommendations and say this is the direction we need to go, somebody should be appointed. Both Mr. Dorn and Mr. Maynard said they would be happy to serve as staff function to that person or persons. He did state that it would be inappropriate for either of them to be the person chosen to head this group.

The motion was made by Attorney General Al Lance to have co-chairs State Treasurer Ron Crane and State Controller Williams with designated staff members from each of the Land Board member's offices, Mr. Doug Dorn, Mr. Robert Maynard, a representative of the Endowment Fund Investment Board and the Director of the Department of Lands as an advisory committee to provide the Land Board with advice, guidance and recommendations. Secretary of State Cenarrusa seconded the motion. The motion carried on a vote of 4-0 with State Controller J.D. Williams being absent.

Mr. Parker Woodall made a brief comment. He stated that Senate Bill 1107 accelerates the time frame on some things, but it doesn't address everything in HJR 6 and HJR 8 in terms of timing. He stated that the implementation committee is going to recognize this. He said we will go through a period where there will have to be some "gentlemen's agreements" between the Endowment Board and the Land Board. This needs to be addressed.

Governor Kempthorne acknowledged Representative Bill Deal who carried HJR 6 and 8 in the House. Rep. Deal also campaigned around the state on behalf of those bills. He thanked Rep. Deal for his efforts.

Rep. Deal apologized for being late for the meeting. He stated that he was in the Senate being confirmed to be a continued member on the Endowment Board. Rep. Deal asked Attorney General Lance if the motion he made was the implementation committee. Attorney General Lance stated that it was the implementation advisory committee that would basically make recommendations to the Land Board as to how this should be implemented. Rep. Deal asked if this was the committee that would establish the investment policy. Attorney General Lance said it would make recommendations relative to the investment policy.

Rep. Deal said he asked if someone was placed on this committee from the Endowment Investment Board. Attorney General Lance said yes and that the Investment Board would choose the person.

Governor Kempthorne asked if there were any other comments. He stated that this had been an excellent presentation and thanked Mr. Maynard, Mr. Dorn and others who were affiliated with this effort. It holds out good prospects of good things for the Endowment. It will bring about a change of dynamics, much greater focus. He said the beneficiaries are the kids of Idaho.

The meeting adjourned at 3:00 p.m.

IDAHO STATE BOARD OF LAND COMMISSIONERS

/s/ _____ Dirk Kempthorne
President, State Board of Land Commissioners and
Governor of the State of Idaho

/s/ _____ Pete T. Cenarrusa
Pete T. Cenarrusa
Secretary of State

/s/ _____ Stanley F. Hamilton
Stanley F. Hamilton
Director

<p>The above-listed final minutes were approved by the State Board of Land Commissioners at the April 13, 1999 regular Land Board meeting.</p>
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